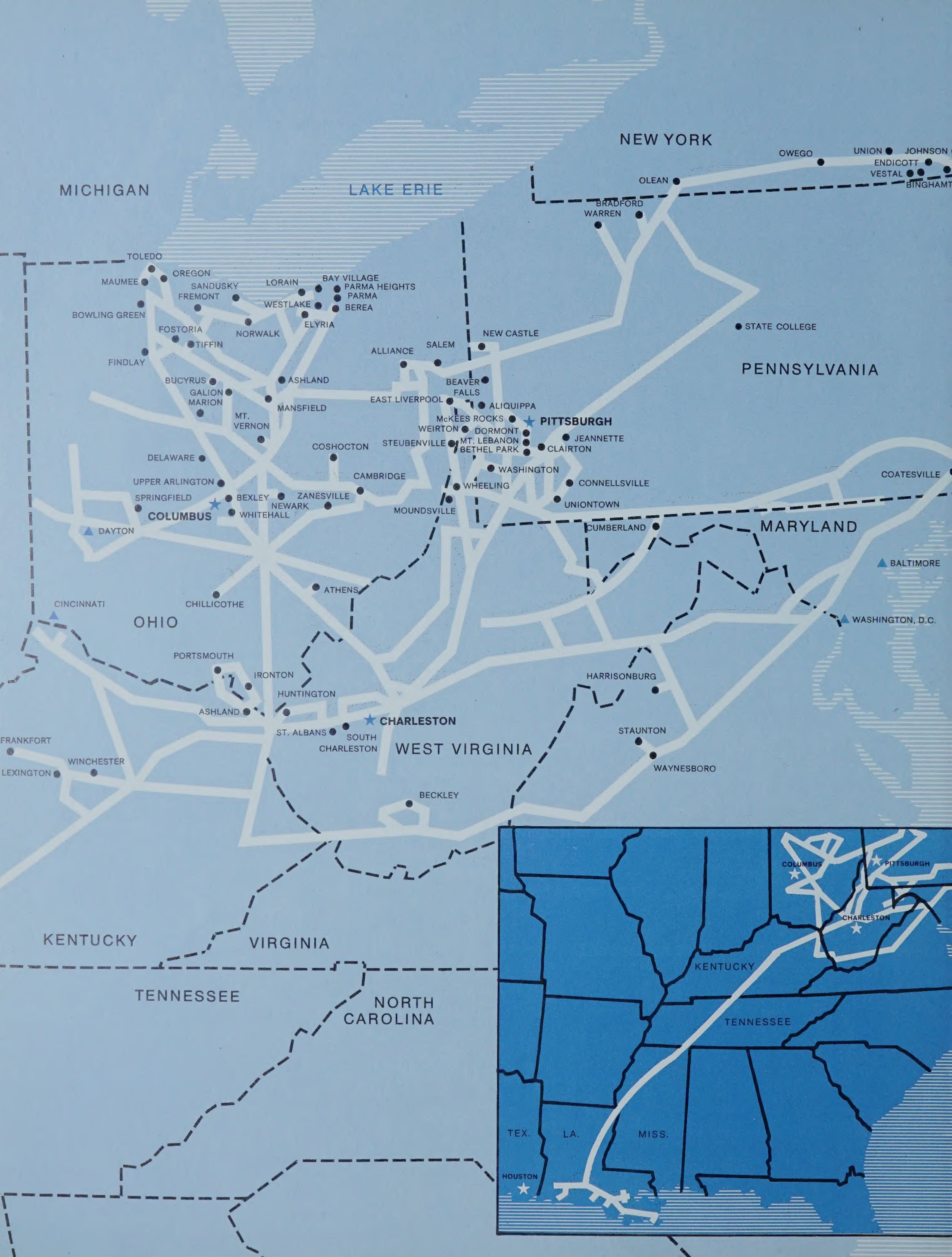
Columbia Gas System Annual Report 1966



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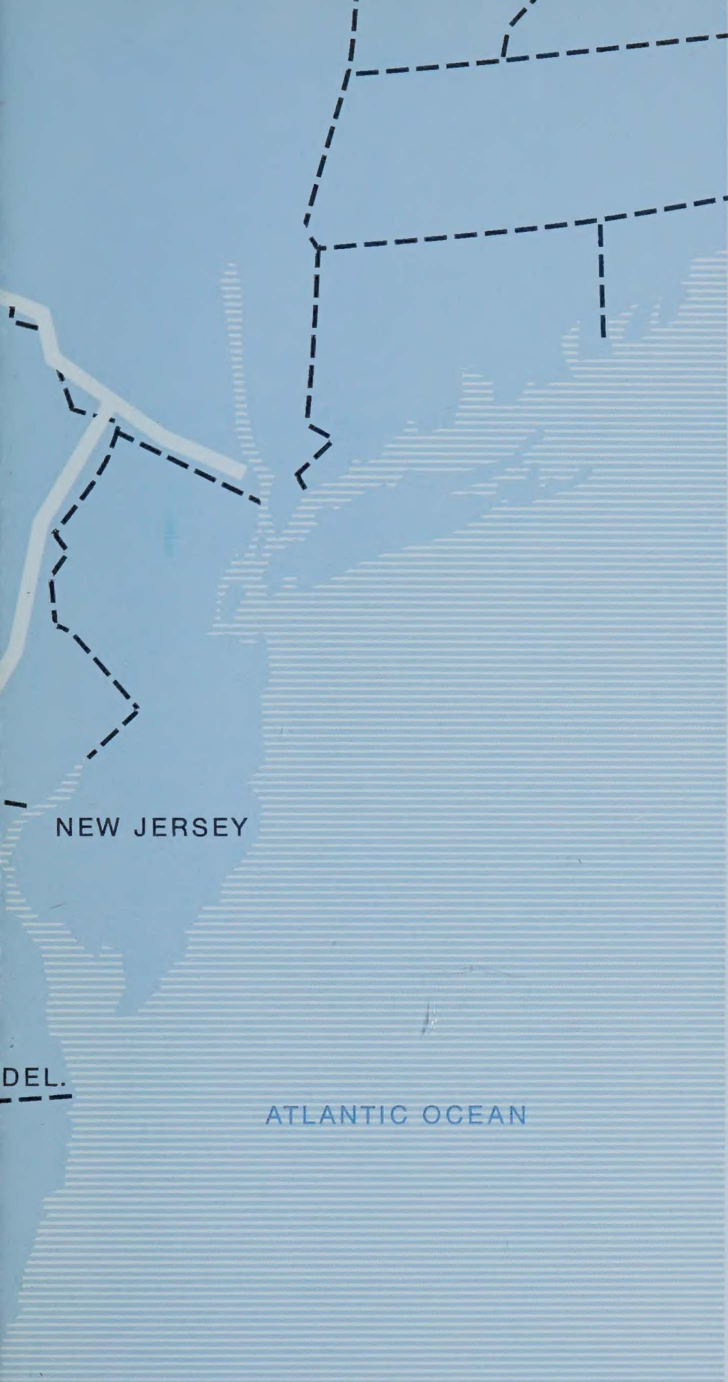

COLUMBIA GAS SYSTEM

LEGEND

- COMMUNITIES SERVED AT RETAIL WITH POPULATION OF 10,000 OR MORE
- PUBLIC UTILITY CUSTOMERS PURCHASING MORE THAN 50 BILLION CUBIC FEET A YEAR
- GROUP HEADQUARTERS
- MAJOR PIPELINES

DESCRIPTION OF COMPANY

The Columbia Gas System, Inc. is an interconnected natural gas system, composed of the Corporation, 20 operating subsidiaries and a subsidiary service company. The operating subsidiaries are primarily engaged in the production, purchase, storage, transmission, and distribution of natural gas. Retail natural gas operations are conducted in the states of Ohio, Pennsylvania, West Virginia, Kentucky, New York, Maryland, and Virginia. In addition, the System engages in wholesale operations, selling natural gas to non-affiliated public utility companies for resale to their customers. Certain subsidiaries produce and sell propane and other extracted hydrocarbon products and one subsidiary produces and sells oil.

Columbia Gas System

Annual Report 1966

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On the cover This is the story of Columbia: deep water rigs exploring for natural gas in the Gulf of Mexico; dispatchers using the latest computers and electronic equipment to control the transmission of gas to our markets; the blue flame of natural gas being used for hundreds of residential and industrial purposes.

Columbia's Annual Report for 1966 presents a comprehensive story of the year's activities. However, a book of detailed operating, financial and statistical data is being prepared — primarily for Security Analysts. If you feel you require more detailed information about the System's operations, the analysts' book will be sent to you when published. Write for "Operating, Financial and Statistical Data — 1966" to Robert E. Gregory, Director of Advertising and Public Relations, The Columbia Gas System, Inc., 120 East 41st Street, New York, N.Y. 10017.

The information contained herein is not given in connection with any sale or offer of, or solicitation of an offer to buy, any securities.

Results of System Operations

	1966	1965	Percent of Increase
	(Thousands of Dollars)		
We Received			
From Sales to residential and commercial customers	$ 295,478	$ 275,600	+ 7.2
From Sales to industrial customers	134,430	124,944	+ 7.6
From Sales to Other Utilities for resale by them	214,450	208,233	+ 3.0
From Other Sales and Services to schools and other public buildings, rents, etc.	18,051	16,209	+11.4
From Extracted Hydrocarbon Products, Oil and Other Income	8,914	9,384	− 5.0
Totals	671,323	634,370	+ 5.8
We Paid or Set Aside			
For Purchased Gas net of gas placed in and withdrawn from storage	306,059	283,242	+ 8.1
For Payrolls and Benefits to people who worked in operating the System	83,857	81,359	+ 3.1
For Materials and Expenses such as maintenance materials, royalties for production, etc.	43,492	39,850	+ 9.1
For Depreciation and Depletion to replace worn out and inadequate facilities	54,879	52,049	+ 5.4
For Taxes (excluding payroll taxes) of which about 59% represents Federal income taxes for 1966	83,681	85,050	− 1.6
For Interest principally interest on the Corporation's outstanding debt	32,987	30,726	+ 7.4
Totals	604,955	572,276	+ 5.7
We Had Left			
Net Income available for dividends and other corporate purposes	$ 66,368	$ 62,094	+ 6.9
Net income per share	$2.19	$2.05	
Dividends paid per share	$1.36	$1.28	
Shares outstanding at December 31	30,304,773	30,220,354	

We are pleased to report the results of another successful year, with sales, earnings and dividends setting new records.

Total sales volumes increased 7.6% over those for 1965. Net income per share for 1966 was $2.19, an increase of 6.9% over the $2.05 per share earnings for 1965. With earnings continuing to increase, the regular quarterly dividend rate was increased on January 5, 1967, from 34¢ to 36¢ per share, making an annual rate of $1.44. This is the fifth consecutive January in which dividends have been increased.

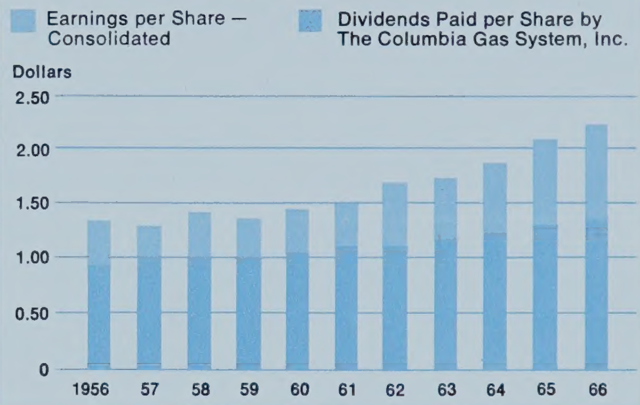
These results are a continuation of the recent trend. During the last five years sales have increased 36%, net income per share 46%, and dividends per share 24%. It is gratifying to note that the greater percentage increase in income is not attributable to increased service rates. The average rate received for gas sold has been decreasing. The average rate for all sales in 1966 was 59.78¢ per MCF, which is 3.47¢ per MCF less than the average rate five years ago. A minor part of this decrease is attributable to the adoption in 1966 by certain System Companies and pipeline suppliers of "flow through" accounting for tax reductions resulting from the use of liberalized depreciation for tax purposes.

The ability to increase earnings, at the same time rates are being reduced, is partly attributable to a major effort to reduce capital and operating costs. Cost reductions, as well as increased sales, have been aided by extensive research and development work on which almost $1,900,000 was spent in 1966. The number of projects carried on by qualified scientists, engineers, and technicians is being constantly expanded.

Of equal importance to the record of increasing earnings has been increased sales effort. The sales force has been expanded from 275 to 345 during the past two years. This sales organization, especially the skilled industrial, heating and air-conditioning engineers, is capable of handling the complex technical problems involved in the many uses of natural gas. To support this sales effort, advertising was increased in 1966 with satisfactory results.

Residential and commercial sales are increasing steadily, and natural gas continues to be the preferred fuel for space heating. We added 39,112 space heating customers in the retail markets during 1966. Of growing importance are air-conditioning sales, which have increased considerably during the past few years.

Earnings and Dividends Paid per Share 1956-1966



Industrial sales reached a new high of 265 billion cubic feet in 1966. While this is partly due to the high level of industrial activity, it is mainly the result of new loads obtained from existing customers and new companies locating in our area.

Considerable publicity has been given to the adequacy of natural gas reserves. We believe that they are adequate for many years to come. Proven reserves will be greatly augmented by new discoveries in the continental United States, including its offshore waters, and in Canada. We believe that the growth of our business will not be hampered or restricted because of a limitation in the supply of gas.

These are some of the reasons why Columbia is confident that it will continue to supply an increasing share of the growing requirements for energy in the area it serves.

In reporting results for 1966 we wish to express appreciation to the employees whose efforts made possible this record of progress.

For the Board of Directors

Cecil E. Loomis
CHAIRMAN OF THE BOARD

February 2, 1967

Joel W. Partridge
PRESIDENT

Work on right-of-way for new pipeline in Charleston, W. Va., continues during the winter to meet the increasing demand for natural gas.

Earnings and Revenues Set New Records

Net income in 1966 rose to $66,368,000, an increase of 6.9%. Operating revenues totaled $669,187,000, up 5.8%, while operating expenses of $571,968,000 increased only 5.6%.

Gas Reserves Greater; Transmission Capacity Increased

The System continued to increase its gas supply in 1966 through exploration and through contracts with other producers and pipeline companies. Gas reserves owned and under contract by Columbia totaled about 21.4 trillion cubic feet as of December 31, 1966.

During the year 83 wells were drilled in which System Companies had an interest. Of the 45 in the Appalachian region, 39 were successful; of the 38 in the Southwest, including off-shore, 11 were successful.

In 1966, Columbia Gulf, the Southwest transmission subsidiary, completed powering its second main pipeline loop (849 miles of 30″ pipe), which increased its capacity for transporting gas from Louisiana to the market areas. Two 16,000 hp jet-engine turbines were installed at a cost of $97 per horsepower. It is believed that this is the lowest cost ever obtained in the industry. All of the compressor stations on both lines are operated by remote control from Houston.

The System is continuing to increase underground storage operations. The importance of this storage can be seen from the fact that on last winter's peak day, of the 6.4 billion cubic feet of gas delivered, about half came from storage.

One Billion Dollars Invested For Construction in Ten Years

Construction expenditures last year amounted to approximately $113,000,000, including about $50,000,000 for transmission facilities and $30,000,000 for distribution facilities. During the past ten years, $1,059,000,000 has been spent to improve and expand the System's facilities.

Approximately $144,000,000 will be spent in 1967, including nearly $50,000,000 on the further expansion of the Southwest pipeline system. The third main loop will be started by construction of 161.6 miles of 36″ pipe and 42,500 hp of compressor capacity.

Columbia Expects to Sell Eighty Million Dollars of Debentures in 1967

In addition to the $113,000,000 needed for the 1966 Construction Program, the System also retired $25,000,000 of debentures through sinking fund operations. Most of the funds required for these purposes was raised from internal sources, with the balance being obtained through the sale at competitive bidding in October of $40,000,000 6¼% Debentures. The System plans to sell $80,000,000 of debentures in two issues at competitive bidding during 1967. It is not expected that common stock financing will be required in the foreseeable future, except that shares may be issued from time to time in connection with the acquisition of property.

Wholesale Rate Revisions Make Columbia More Competitive

A major objective for many years has been the establishment of more competitive wholesale rates. Late in 1966, three System Companies and their wholesale customers entered into an agreement to settle pending rate proceedings. The agreement reflects higher demand and lower commodity components than the rates previously in effect and provides for rate reductions reflecting the flow-through of the tax reduction resulting from the use of liberalized depreciation. In addition, restrictions on the use of boiler fuel have been eliminated and new Winter Service Rate Schedules are included. The effect of the proposed settlement has been reflected in 1966 earnings. By order issued on January 26, 1967, the Federal Power Commission conditionally approved the settlement, including the demand and commodity components and Winter Service Rate Schedules agreed upon. The System Companies are requesting reconsideration of certain conditions imposed by the order.

If these conditions can be satisfactorily resolved it is hoped that similar agreements can be reached

early in 1967 on the wholesale rates placed in effect by other System Companies in 1965.

During 1966, System Companies received or have pending pipeline supplier rate reductions in excess of $2,400,000 annually. Of the $4,900,000 being paid subject to refund as of the end of 1965, settlement was reached during the year on $2,400,000, calling for the firm payment of $500,000 and a reduction of $1,900,000. As a result, at year-end, System Companies were still paying, subject to refund, approximately $2,500,000 annually as increases to producers. These reductions and possible refunds will have no adverse effect on our earnings. It appears that the field price of gas has stabilized, and we do not expect any significant increase in the price we pay for gas in the foreseeable future.

During the year System retail companies were granted rate increases of approximately $3,700,000 annually.

Federal Power Commission Issues Adverse Decision

A System subsidiary has been in the past the only supplier of natural gas to Washington Gas Light Company, Washington, D.C., and Commonwealth Natural Gas Corporation, Richmond, Virginia. In 1964 another pipeline company, Transcontinental Gas Pipeline Corporation, filed applications with the Federal Power Commission for authority to supply part of the increased requirements of these two utilities. We opposed these applications as not being in the public interest and as constituting an unwarranted raid on established markets to which service by the System subsidiary had been previously certificated by the Commission.

After lengthy hearings the Examiner who presided and heard the evidence issued his findings in September 1966, denying the applications of Transcontinental and upholding the System subsidiary in all its contentions. The Commission, in an order and opinion issued on January 24, 1967, rejected the Examiner's findings and granted the applications of Transcontinental. Columbia believes that the Examiner's decision was proper and fully justified by the evidence and will, therefore, vigorously press for a reversal of the action of the Commission.

Total Gas Sales and Number of Retail Customers Increase

Last year, Columbia had gas sales of 1.1 trillion cubic feet, an increase of 7.6%. (See "Sales of Gas" table.)

During 1966, 29,163 net new retail customers were added, bringing the total number served directly to 1,626,025. At the end of the year, 92.3% of our residential and commercial customers used gas for space heating.

In addition to our direct sales, we serve 116 wholesale customers, thus indirectly furnishing the gas requirements of approximately 2,150,000 additional retail customers in about 600 communities.

Industrial Sales Show Gain; Air Conditioning Installations Increase

Total industrial sales reached a new record of

1966 Sales of Gas

	VOLUMES			REVENUES		
	Volume in MMCF	% of Total	% Increase Over 1965	Revenues in Thousands of Dollars	% of Total	% Increase Over 1965
Residential	254,618	23	5.2	$237,214	36	6.3
Commercial	72,262	7	10.0	58,264	9	11.1
Industrial	265,064	24	8.0	134,430	20	7.6
Wholesale	490,231	44	8.1	214,450	33	3.0
Other	20,735	2	13.3	14,943*	2	13.1
Total	1,102,910	100	7.6	$659,301*	100	6.0

** Excludes other gas department revenues of $3,108,000.*

A typical sight throughout our market area, a 28,000 pound absorption type gas air conditioning unit is being installed in a new building which is using natural gas both for heating and air conditioning.

Industrial Gas Sales By Major Product Classification	Year 1966 MMCF	Year 1966 % of Total	Increase 1966 Over 1965 MMCF	Increase 1966 Over 1965 %
Primary Metals	89,903	33.9	4,828	5.7
Clay, Glass and Stone Products	62,176	23.5	4,033	6.9
Chemicals and Allied Products	45,990	17.4	2,978	6.9
Petroleum and Coal Products	14,851	5.6	1,917	14.8
Machinery	11,856	4.5	1,306	12.4
Fabricated Metal Products	8,745	3.3	844	10.7
Transportation Equipment	8,608	3.2	898	11.6
All Other	22,935	8.6	2,848	14.2
Total All Classes	265,064	100.0	19,652	8.0

265 billion cubic feet for the year, up 8.0%. (See "Industrial Gas Sales" table.) We added 599 industrial loads last year, representing annual sales of 27.5 billion cubic feet. Columbia's territory continues to attract many new companies which use large quantities of gas. A new record was established with the addition of 121 new plants during 1966.

Particular emphasis was placed last year on the marketing of small-tonnage air conditioning units which are used primarily in the residential and small-commercial market. In 1966, there were 2,268 installations sold in our retail markets, up from 1,200 in 1965. Further price reductions in these units are promised by equipment manufacturers before the end of 1967, which will accelerate future sales gains.

Other markets offering substantial potential are air conditioning of large buildings and prime movers for industrial machinery. To fully exploit all phases of these markets, we have assigned a number of highly trained sales engineering specialists to these fields. Results to date have been excellent. The capacity of large-tonnage air conditioning units installed in 1966 was 61.6% greater than that added in 1965. The year's prime mover horsepower additions by our customers were about 190% greater than in 1965. Special emphasis is being given to Total Energy installations. Two large projects are

In a Pennsylvania greenhouse complex using a carbon dioxide plant-enrichment process with natural gas as the fuel—a superior tomato is produced, the growing period is shorter, and the yield is increased 22%.

now under construction in our area. Others are in the design or planning stage.

Trained Sales Force Key to Promotional Success

Between 1964 and 1967, Columbia's sales force was increased 25.5%. Because highly trained manpower is necessary for promotional success, all marketing personnel continually receive refresher courses to further increase their sales effectiveness.

To support our sales efforts, we expanded our advertising program in all media. Since natural gas is generally less expensive than other forms of energy throughout our markets, we have built our consumer ads around the slogan, "Think of all the things you can do with the money you save with gas." Our dealer and builder co-operative program also was expanded.

In 1966 the American Gas Association honored our Pittsburgh Group with its Public Relations Achievement Award. The sixth such award, it was presented for the group's "Sell More Gas" program, which enlisted the aid of 3,200 employees to increase the sale of natural gas appliances.

New Companies Acquired Because of Growth Potential

During the year, two natural gas distribution companies, located in or around our marketing territory, were acquired because of their future growth possibilities.

As of May 31, 1966, all the properties of Central Pennsylvania Gas Company were acquired in exchange for 29,396 shares of Columbia Common Stock. Central Pennsylvania sold natural gas at retail to approximately 1,380 customers in State College, Pennsylvania, and the immediate vicinity.

As of September 30, 1966, all the properties of Delaware Gas Company were acquired in exchange for 55,023 shares of Columbia Common Stock. Delaware Gas sold natural gas at retail to approximately 4,200 customers in Delaware, Ohio, and the immediate vicinity.

A contract has been executed, subject to the approval of appropriate regulatory agencies, providing for the acquisition of all the properties of Limestone Gas Company in exchange for not more than 44,000 shares of Columbia Common Stock. Limestone sells natural gas to approximately 6,600 customers in Maysville and Paris, Kentucky.

Substantial time and cost savings are achieved by using an Electroscanner in Columbus, Ohio general office. It automatically processes 35,000 meter charts monthly—as compared to former methods which took considerably more time.

R & D Budget Expands; Projects Designed to Cut Costs and Develop New Markets

The research program was expanded during the year. Total expenditures last year were almost $1,900,000, a 20% increase over the previous year. In 1967 we expect total research dollar expenditures to increase an additional 35%.

Since 1962 Columbia has almost doubled its research staff which totaled 35 at the end of 1966. Our plans for increased efforts in this area will require that we again double the number of research personnel by 1970.

Listed below are some of the projects we are currently working on:

The fuel cell program is one of our broadest and

most aggressive projects of fundamental research. In July we received a 3.75 KW natural gas-air fuel cell engine which had been built for us by Pratt & Whitney Aircraft. This unit is large enough to handle the electric requirements of a normal house and has been used in our laboratory to operate a number of domestic appliances simultaneously.

In addition, Columbia is a member of a group of gas companies which launched, early in 1967, a $21 million research program designed to give new impetus to the development of a marketable fuel cell powered by natural gas. The project, to be known as TARGET, will be carried out by Pratt & Whitney Aircraft, a division of United Aircraft Corporation, and the Institute of Gas Technology.

The goal of TARGET will be development of a complete "comfort package" for homes, apartments, and business which will be superior to any of the methods for environmental betterment presently used. This package will provide, it is hoped, for complete control of temperature and humidity year 'round along with generation of electricity for all needs "on-site." Reduction of air pollution also will be an objective.

The nuclear storage study has been moving ahead satisfactorily. Progress is being made in a joint program with the Atomic Energy Commission, the Bureau of Mines, and the Lawrence Radiation Laboratory of the University of California. This Project KETCH is to evaluate the feasibility of detonating a 24-kiloton thermonuclear device in north central Pennsylvania. We expect to complete the assessment of the feasibility of this project by the end of 1967.

The development of alternate gas supply sources is naturally another area of importance to Columbia. The Institute of Gas Technology has made significant progress in developing a hydrogasification process for the direct conversion of coal to high Btu pipeline gas. This work is being sponsored by the Office of Coal Research and the American Gas Association. In addition to providing financial aid for this project, we are conducting supporting research.

We are participating in a study of advanced housing concepts by the Stanford Research Institute. The program is presently supported by 25 companies, and includes plans for a number of experimental housing demonstrations. These are to provide the means to study under controlled conditions advanced housing concepts in marketing, financing, land management, replaceable core components, and physical and functional design criteria. Advanced housing installations are being considered for the major geographic areas of the country.

In 1965 a pavement cutter was developed jointly with Hughes Tool. Last year a prototype model was built, field tested, and transferred to fully operational status in the Pittsburgh Group where it is now being used. Hughes Tool is now manufacturing production units, the first of which is just becoming available.

In addition to these projects, we are engaged in research on industrial utilization of natural gas. Some of these include: blast furnace injection, steelmaking, gas fired foundry iron melting, cupola injection, high temperature industrial furnace, brass melter, faster red brick firing, glass container fire polishing, high temperature heat transfer materials, and optimum ceramic firing.

Considerable research is also being conducted in the field of home appliances.

It is our objective, through research and development, to improve processes and equipment; reduce costs; improve efficiency in all areas; improve service to our customers; and secure the future growth of the System.

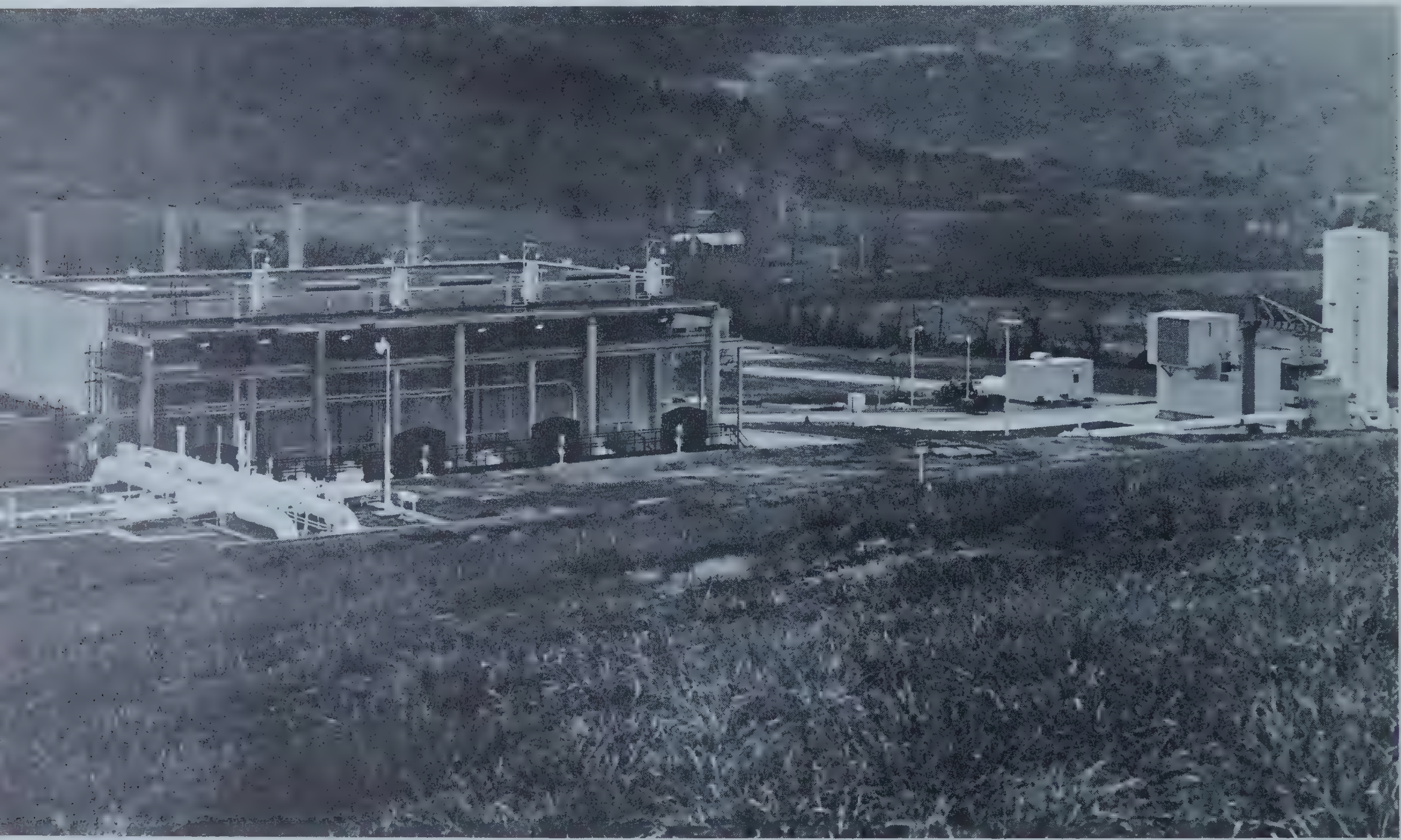
Columbia Safety Record Outstanding

Public Safety: For over a year, there has been substantial agitation by a relatively small group concerning the safety of natural gas pipelines. Such agitation has presented a wholly distorted picture of the true situation. Actually, the pipeline industry has an outstanding safety record.

Over 100,000 Americans die from accidents each year. On the average, only four of these more than 100,000 die from accidents connected with natural gas pipelines, and only two a year represent deaths to the public. This record has been characterized as "remarkably good" by the Federal Power Commis-

Fuel Cell delivering 3.75 KW of power and operating on natural gas and air is being tested and demonstrated at Marble Cliff, Ohio, research and engineering lab. Here a TV set, light bulb, and clothes dryer are being operated from power provided by the fuel cell. This fuel cell has been able to handle the normal house base load and sustain instantaneous peak loads associated with appliance startup.

The 10,500 horsepower gas turbine installation seen at far right in picture is dramatically smaller than the older 14,000 hp centrifugal compressor installation which required large building at left to house. A 16,000 hp jet gas turbine unit will replace this 10,500 hp one in proposed 1967 Columbia Gulf Transmission Company construction at this Hartsville, Tenn., Compressor Station.



sion. Columbia Companies have an equally impressive record — in fifteen years no member of the public and only one employee lost his life from a System pipeline failure.

This safety record is not by happenstance, but the result of constant effort over a thirty-five year period to develop sound standards for the construction, operation and maintenance of pipelines. The United States of America Standards Institute Code applicable to pipelines is the product of thousands of man-hours of experts in many fields. The safety record also reflects the extensive research efforts by industry groups and companies.

Employee Safety: In 1966 Columbia again demonstrated that it is one of the safest companies, in one of the safest industries. Employee injuries on the job were held to 2.59 for every 1,000,000 man-hours worked. This compares to 5.69 for the Gas Industry and 6.54 for All Industries. On the streets and highways, the record for 1966 is equally impressive. For every 1,000,000 miles of travel, Columbia drivers experienced seven accidents as compared with eleven for the Gas Industry and thirteen for All Industries (industry figures are for 1965, the latest available).

Attesting to this good record is the fact that in each of the past three years Columbia has won one or more awards in national contests sponsored by the National Safety Council and American Gas Association.

Benefits for Employees are Improved

Columbia's excellent progress last year would not have been possible without the dedication and skills of our employees. At the year end, we had 11,738 regular employees, slightly less than the 11,947 on December 31, 1965.

Last year our employees received $98,561,000 (including amounts charged to construction) in salaries, wages, and benefits. A wide range of benefits is provided for System employees, including paid vacations, long and short term disability, life insurance, medical insurance, retirement income and a Thrift Plan. Several important changes in the Retirement Income Plan were made during the year, including an increase in the level of benefits.

Formal and Informal Training Programs Increase Employee Skills

A great number of formal training courses are available for employees. The subject matter of these courses covers a wide range—from the operation and maintenance of jet engines to home food preservation and kitchen planning, from courses on customer relations to attendance at executive development programs at nine leading universities. Along with our formal programs, we provide all employees with informal on-the-job training.

In addition to the training totally sponsored by Columbia, the System also has an Education Assistance Plan which reimburses employees for 75% of the basic cost of courses when they are completed. Each year more than 250 System employees participate in this program as a means of improving current job performance and increasing their prospects for promotion.

Two New Directors Elected

John N. Stauffer, President of Wittenberg University, Springfield, Ohio, was elected a Director of the Corporation on January 5, 1967, and Ray M. Evans, Chairman of the Board of Thompson, Weinman and Company, Charleston, West Virginia, and a Director of United Fuel Gas Company, a subsidiary of the Corporation, was elected a Director of the Corporation on February 2, 1967. Mr. Evans had previously served as a Director of the Corporation from 1953 to 1964.

Alan A. Cullman was elected Treasurer of the Corporation on March 3, 1966, succeeding Charles H. Mann, who retired.

These Key Punch operators in Data Center Operations Department at Marble Cliff, Ohio, process in excess of a quarter of a million changes monthly. They are working with customer change requests and stockholder records.

The Columbia Gas System, Inc. and Subsidiary Companies

Consolidated Income Statements

for the Years Ended December 31

		1966		1965
		(Thousands of Dollars)		
Operating Revenues:				
Gas		$662,409		$624,986
Other		6,778		7,591
Total operating revenues		669,187		632,577
Operating Expenses:				
Purchased gas		306,059		283,242
Other operation expenses		101,499		96,156
Maintenance		23,306		23,291
Provision for depreciation and depletion (Note 3—page 17)		54,879		52,049
Federal income taxes and investment tax credit (Note 1—page 17)—				
Currently payable	$43,600		$43,440	
Deferred	1,577		4,168	
Investment tax credit—net	4,529	49,706	5,031	52,639
Other taxes		36,519		34,173
Total operating expenses		571,968		541,550
Total operating income		97,219		91,027
Other Income:				
Amortization of investment tax credit (Note 1—page 17)		1,041		845
Other — net		1,095		948
Total other income		2,136		1,793
Income before interest charges		99,355		92,820
Interest Charges:				
Interest on debentures		31,016		29,289
Interest on bank loans		2,591		2,167
Other interest expense		279		326
Interest during construction—credit		899		1,056
Total interest charges		32,987		30,726
Net Income		$ 66,368		$ 62,094
Net Income Per Share of Common Stock		$ 2.19		$ 2.05
Dividends Per Share of Common Stock		$ 1.36		$ 1.28

The notes to financial statements are an integral part of these statements.

The Columbia Gas System, Inc. and Subsidiary Companies

Consolidated Balance Sheets

as of December 31

	1966	1965
Assets	(Thousands of Dollars)	
Property, Plant and Equipment (at original cost)	$1,899,477	$1,796,638
Less accumulated provision for depreciation and depletion	517,627	466,022
	1,381,850	1,330,616
Investment in Production Payments	9,004	3,552
Current Assets:		
Cash	29,306	32,576
Temporary cash investments, at cost which approximates market value	18,613	26,317
Accounts receivable (less accumulated provision for doubtful accounts)	75,797	66,909
Gas in underground storage, at cost—current inventory (last-in, first-out basis)	52,858	57,071
Materials and supplies, at average cost	16,176	14,858
Prepayments and miscellaneous	8,113	7,177
	200,863	204,908
Deferred Charges:		
Property taxes applicable to subsequent year's operations	7,994	7,190
Capital stock expense	3,256	3,252
Unamortized debt discount and expense, less premium	3,675	3,610
Other	6,165	6,917
	21,090	20,969
	$1,612,807	$1,560,045

	1966	1965
Liabilities		
Capitalization:		
Common stock equity (Note 4—page 17)—		
Common stock, $10 par value	$ 303,048	$ 302,204
Balance of amounts paid in in excess of par value	90,093	89,572
Earnings retained in the business (Page 16)	202,211	174,988
Minority interest in subsidiary company	170	174
Total common stock equity	595,522	566,938
Long-term debt (Page 16)	728,857	715,589
Total capitalization	1,324,379	1,282,527
Current Liabilities:		
Bank loans	80,000	80,000
Long-term debt—current maturities (Page 16)	19,906	16,980
Accounts payable	29,107	28,103
Accrued taxes	52,595	56,275
Rate refunds due customers	11,457	8,544
Other	23,528	21,959
	216,593	211,861
Deferred Credits:		
Accumulated provision for deferred income taxes (Note 1—page 17)	39,312	37,641
Accumulated deferred investment tax credits (Note 1—page 17)	21,866	18,281
Advances for and contributions in aid of construction	5,471	5,556
Other	5,186	4,179
	71,835	65,657
	$1,612,807	$1,560,045

The notes to financial statements are an integral part of these statements.

Consolidated Earnings Retained in the Business
for the Years Ended December 31

	1966	1965
	(Thousands of Dollars)	
Balance at beginning of year	$174,988	$150,077
Add:		
Net income for the year	66,368	62,094
Net discount on debentures purchased for sinking fund	1,993	1,480
	243,349	213,651
Deduct:		
Cash dividends on common stock—$1.36 per share in 1966 and $1.28 per share in 1965	41,138	38,663
Balance at end of year	$202,211	$174,988

Consolidated Long-Term Debt as of December 31, 1966

The Columbia Gas System, Inc.:	Long-Term	Current Maturities
Debentures—	(Thousands of Dollars)	
3 % Series A due 1975	$ 56,400	$ 3,350
3 % Series B due 1975	46,000	2,750
3⅜% Series C due 1977	34,100	1,850
3½% Series D due 1979	25,000	1,250
3⅝% Series E due 1980	26,250	1,250
3⅞% Series F due 1981	27,500	1,250
4¾% Series G due 1981	17,400	760
5 % Series I due 1982	18,160	760
4⅜% Series J due 1983	22,720	910
4⅞% Series K due 1983	18,920	760
4⅛% Series L due 1974	38,700	5,500
5 % Series M due 1978	38,400	2,400
5⅛% Series O due 1985	24,540	910
5⅛% Series due June, 1986	25,450	910
4½% Series due June, 1987	24,125	875
4⅝% Series due August, 1987	19,300	700
4⅜% Series due November, 1987	28,950	1,050
4⅜% Series due January, 1988	24,125	875
4⅝% Series due May, 1989	50,000	(a)
4⅝% Series due October, 1989	40,000	(a)
4⅝% Series due May, 1990	40,000	(b)
4⅞% Series due October, 1990	40,000	(b)
6¼% Series due October, 1991	40,000	(c)
Miscellaneous debt of subsidiary companies	2,817	31
	728,857	28,141
Less—1967 sinking fund requirements of Debentures satisfied in 1966	—	8,235
Balance as of December 31, 1966	$728,857	$ 19,906

(a) Annual sinking fund requirements amount to $1,750,000 and $1,400,000, respectively, beginning in 1969.
(b) Annual sinking fund requirements amount to $1,400,000 on each issue beginning in 1970.
(c) Annual sinking fund requirements amount to $1,400,000 beginning in 1971.

The notes to financial statements are an integral part of these statements.

Notes to Financial Statements

(1) Federal Income Taxes:

Federal income taxes have been reduced, and consolidated net income increased, in 1966 and 1965 by $1,382,000 and $1,399,000, respectively, due to deductions by the oil subsidiary for exploration and development expenses which are capitalized as plant to be amortized over the productive lives of the properties for accounting purposes but which are deducted currently for income tax purposes.

Prior to 1966, all System companies claiming accelerated depreciation for tax purposes provided for deferred income taxes resulting therefrom, except for distribution companies in Ohio, which, with the approval of the Public Utility Commission of Ohio, are claiming accelerated depreciation for tax purposes on property additions for the years 1954 through 1963, and are not providing for deferred taxes.

During 1966, the Federal Power Commission's revised policy, which does not permit provision for deferred income taxes for rate purposes, was upheld in the Federal courts. Recent rate settlements of three System companies agreed to by the parties, retroactive to January 1, 1966 were based in part upon the pass-on of Federal income tax deferrals to the customers. By order dated January 26, 1967, the Federal Power Commission has approved such settlements with certain conditions relating to other issues. The System companies are requesting reconsideration of such conditions. The settlements have been recorded in the accounts and no provisions have been made by these companies for $2,925,000 of deferred income taxes arising in 1966. These companies expect that increased income taxes in the future will be allowed as a cost by the Commission in future rate determinations. It is the present intention of these companies to retain the accumulated provisions for deferred taxes ($26,614,000) until such time as it may be required to provide for the difference when total income taxes are greater computed on an accelerated depreciation basis than such taxes computed on a straight-line depreciation basis. Four other System companies, which have rate cases pending before the Federal Power Commission, have continued to provide deferred income taxes in 1966, since the effective date that such companies will no longer be allowed to provide deferred income taxes for rate purposes cannot be presently determined.

The consolidated accumulated amount of deferred income taxes not provided for because of rules or orders of commissions as of December 31, 1966 was $11,103,000, of which $3,778,000 and $962,000 was applicable to 1966 and 1965, respectively.

The benefit of the Investment Tax Credit is being amortized to expense over a 33 year period in the case of distribution companies subject to the jurisdiction of state commissions, and to "Other Income" over a 20 year period in the case of companies subject to the Federal Power Commission since, in the latter case, the companies have elected to retain such benefit.

(2) Integration:

The Securities and Exchange Commission has reserved jurisdiction as to the retainability by the Corporation of its interest in certain wholly-owned subsidiaries whose properties constitute approximately 12% of the total System property. The Corporation believes that, if such properties should ultimately be held not retainable, the Commission would permit the Corporation to adopt a plan for disposing of them which would best protect the stockholders' interest and permit full realization of their intrinsic values. These proceedings have been pending before the Commission since 1944.

(3) Depreciation and Depletion:

The subsidiaries of the Corporation provide depreciation on a straight-line basis in amounts which, in the opinion of management, are adequate for the purpose of providing for the retirement of the original cost of properties over their estimated lives. The annual consolidated provisions for depreciation, based on the average of depreciable property at the beginning and end of each year, were equivalent to 3.2% for 1966 and 3.1% for 1965. Provisions for depletion and amortization of well costs have been based on a unit rate applied to quantity of gas produced.

(4) Capitalization:

Consolidated earnings retained in the business as of December 31, 1966 amounted to $202,211,000. Under the terms of the Indentures securing the Corporation's outstanding Debentures, approximately $146,115,000 of the consolidated retained earnings were not available for cash dividends.

The increase of $521,000 in Balance of Amounts Paid In in Excess of Par Value during 1966 represents the excess of underlying book value of properties acquired over par value of the Corporation's common stock exchanged therefor.

The Corporation has 39,500,000 shares of common stock, par value $10 per share, and 500,000 shares of preferred stock, par value $50 per share, authorized.

(5) Retirement Income Plan:

The System has a trusteed, non-contributory Retirement Income Plan which, with certain minor exceptions, covers all regular employees between the ages of 25 and 65 years who have had one year of continuous service. Retirement income is based on the number of years of the employee's service and on his annual rate of compensation. The System's policy is to fund pension costs accrued, which amounted to $6,000,000 in 1966 and 1965. As of December 31, 1966, the value of the Retirement Income Fund exceeds the actuarially computed value of vested benefits based on the unit credit method.

(6) Construction Program:

Reference is made to the 1967 construction program as set forth in the foregoing report.

(7) Leases:

Rentals of leased property, other than rents applicable to non-operating production property, aggregated $9,521,000 in 1966 of which $3,853,000 is applicable to leased buildings. The balance represents primarily rentals of general use equipment.

Auditors' Report

ARTHUR ANDERSEN & CO.

80 Pine Street
New York, N.Y. 10005

To the Stockholders of The Columbia Gas System, Inc.:

We have examined the consolidated balance sheets of The Columbia Gas System, Inc. (a Delaware corporation) and its subsidiary companies as of December 31, 1966 and 1965, and the related statements of income and earnings retained in the business for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheets and statements of income and earnings retained in the business present fairly the financial position of the companies as of December 31, 1966 and 1965, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied, except for the change in accounting for deferred income taxes during 1966 as discussed in Note 1 to the financial statements, on a consistent basis during the periods.

January 31, 1967.

Arthur Andersen & Co.

Columbia's Growth Record — 1956 to 1966

	1966	1965
Earnings[a] — (Thousands of Dollars)		
Total Operating Revenues	$ 669,187	$ 632,577
Purchased Gas	306,059	283,242
Operating Expenses and Taxes	265,909	258,308
Operating Income	97,219	91,027
Interest on Debentures	31,016	29,289
Net Income	66,368	62,094
Earnings Per Share (Dollars)	2.19	2.05
Dividends		
Dividends Paid Per Share (Dollars)	$ 1.36	$ 1.28
Dividend Payout Ratio	62.1%	62.4
Gas Statistics		
Revenues — (Thousands of Dollars)		
Residential and Commercial	$ 295,478	$ 275,600
Industrial	134,430	124,944
Wholesale	214,450	208,233
Other	18,051	16,209
Total	662,409	624,986
Sales — (Million Cu. Ft.)		
Residential and Commercial	326,880	307,819
Industrial	265,064	245,412
Wholesale	490,231	453,625
Other	20,735	18,306
Total	1,102,910	1,025,162
Customers at Year End		
Residential and Commercial		
Heating	1,489,717	1,450,605
Non-heating	123,853	134,277
Industrial	3,127	2,985
Wholesale	116	116
Other	9,328	8,995
Total	1,626,141	1,596,978
Maximum Day		
Sendout — Million Cu. Ft.	6,432	6,002
At System Average Temperature of	6°	9°
Sources of Gas — (Million Cu. Ft.)		
Purchased — Southwest	992,447	924,143
Appalachian	74,825	70,109
Produced	68,199	76,536
Total	1,135,471	1,070,788
Property, Plant and Equipment — (Thousands of Dollars)		
Total Investment	$1,899,477	$1,796,638
Less Accumulated Provision For Depreciation and Depletion	517,627	466,022
Net	1,381,850	1,330,616
Capitalization — (Thousands of Dollars)		
Total Common Stock Equity	$ 595,522	$ 566,938
Long-term Debt — including Current Maturities	748,763	732,569
Total Capitalization	1,344,285	1,299,507
Debt Ratio	55.7%	56.4

[a]Restated to reflect rate settlements.

1964	1963	1962	1961	1960	1959	1958	1957	1956
592,901	$ 578,599	$ 555,400	$ 523,894	$ 501,323	$ 447,090	$ 412,437	$ 369,170	$ 339,604
265,638	259,980	254,945	235,667	228,463	192,056	178,927	161,577	146,071
243,821	239,011	223,773	217,272	205,748	191,946	175,158	156,068	144,958
83,442	79,608	76,682	70,955	67,112	63,088	58,352	51,525	48,575
26,405	25,451	24,822	24,257	23,204	22,685	19,298	16,809	15,601
56,398	52,367	50,044	45,362	42,508	38,811	37,743	33,883	32,213
1.87	1.73	1.66	1.50	1.43	1.37	1.40	1.29	1.33
1.22	$ 1.16	$ 1.10	$ 1.10	$ 1.025	$ 1.00	$ 1.00	$ 1.00	$ 0.925
65.2%	67.1%	66.3%	73.3%	71.7%	73.0%	71.4%	77.5%	69.5%
268,391	$ 266,791	$ 255,194	$ 239,518	$ 229,663	$ 209,061	$ 199,781	$ 172,906	$ 160,063
108,861	102,323	94,531	88,403	88,453	77,083	65,004	63,493	59,980
192,743	186,847	184,536	173,960	165,363	145,409	134,140	119,071	106,261
16,180	15,678	14,171	14,383	9,511	7,966	8,147	7,673	6,812
586,175	571,639	548,432	516,264	492,990	439,519	407,072	363,143	333,116
302,976	299,667	289,824	275,212	269,982	258,074	255,969	231,983	222,571
211,640	195,059	178,357	170,366	171,663	157,454	134,711	136,985	129,601
407,397	393,355	377,369	349,687	337,666	308,894	297,757	268,383	244,725
17,355	16,218	15,262	13,714	13,031	11,503	10,861	9,063	8,459
939,368	904,299	860,812	808,979	792,342	735,925	699,298	646,414	605,356
412,783	1,364,562	1,326,652	1,288,247	1,254,624	1,217,437	1,164,557	1,106,769	1,041,581
143,916	155,408	167,479	179,239	193,999	210,608	234,665	265,283	293,877
2,826	2,724	2,650	2,602	2,598	2,567	2,529	2,468	2,301
115	120	121	121	117	115	113	112	108
8,810	8,583	8,356	8,096	7,926	8,208	8,133	7,359	7,008
568,450	1,531,397	1,505,258	1,478,305	1,459,264	1,438,935	1,409,997	1,381,991	1,344,875
5,472	5,804	5,447	4,921	5,019	4,772	4,586	4,115	3,374
15°	−2°	5°	12°	6°	5°	4°	9°	17°
847,705	820,187	744,026	739,357	712,826	653,279	602,466	553,610	548,428
67,829	69,642	65,131	63,014	67,259	76,140	74,433	70,681	67,789
66,001	71,730	70,093	67,989	66,618	65,022	64,921	63,527	69,925
981,535	961,559	879,250	870,360	846,703	794,441	741,820	687,818	686,142
691,282	$1,570,904	$1,494,275	$1,407,470	$1,355,276	$1,285,538	$1,204,035	$1,085,136	$ 843,879
418,994	386,005	355,897	324,722	293,682	266,144	243,052	224,672	198,467
272,288	1,184,899	1,138,378	1,082,748	1,061,594	1,019,394	960,983	860,464	645,412
541,675	$ 523,428	$ 505,482	$ 487,882	$ 474,626	$ 431,421	$ 380,737	$ 369,831	$ 297,498
580,978	611,329	629,929	595,225	589,544	596,061	622,695	513,677	364,857
222,653	1,134,757	1,135,411	1,083,107	1,064,170	1,027,482	1,003,432	883,508	662,355
55.7%	53.9%	55.5%	55.0%	55.4%	58.0%	62.1%	58.2%	55.1%

Directors and Officers

Directors

William B. Anderson
President, The Anderson-Newcomb Co., Huntington, W. Va.

John C. Baker
President Emeritus, Ohio University, Athens, Ohio

Fred W. Batten
Senior Vice-President and Chief Operations Officer

Charles M. Beeghly
Chairman of the Board, Jones & Laughlin Steel Corp., Pittsburgh, Pa.

Thomas S. Blair
President, Blair Strip Steel Company, New Castle, Pa.

Warren W. Clute, Jr.
President, Watkins Salt Company, Watkins Glen, N.Y.

Francis H. Crissman
Senior Vice-President and Chief Financial Officer

Ray M. Evans
Chairman of the Board, Thompson, Weinman and Co., Charleston, W. Va.

Edward A. Livingstone
Retired Industrialist, Beaver, Pa.

Cecil E. Loomis
Chairman of the Board

George P. MacNichol, Jr.
Former Chairman of the Board Libby-Owens-Ford Glass Co., Toledo, Ohio

John W. Partridge
President

Edward S. Pinney
Partner, Cravath, Swaine & Moore, New York, N.Y.

George H. Pringle
President, The Mead Corporation, Chillicothe, Ohio

John P. Roche
President, American Iron & Steel Institute, New York, N.Y.

Arch A. Sproul
Executive Vice-President, W. J. Perry Corp., Staunton, Va.

John N. Stauffer
President, Wittenberg University, Springfield, Ohio

George S. Young
Chairman of the Executive Committee of the Board

Director Emeritus

Theodore F. Smith, Ligonier, Pa.

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Chairman of the Board and Chief Executive Officer

John W. Partridge, President

Fred W. Batten
Senior Vice-President and Chief Operations Officer

Francis H. Crissman
Senior Vice-President and Chief Financial Officer

Alan A. Cullman, Treasurer

Karl Shaver, Secretary

Michael J. Prylucki, Assistant Secretary

Leland B. Roth, Assistant Treasurer

John E. Sundman, Assistant Treasurer

Operating Company Executives

Charleston Group Companies

James S. Phillips, President

W. Porter Dick, Vice-President and General Manager

Columbus Group Companies

Allan W. Lundstrum, Chairman of the Board and President

Pittsburgh Group Companies

John C. Peterson, Chairman of the Board

James E. Coleman, President

Columbia Gulf Transmission Company

John W. Kelley, President

Columbia Hydrocarbon Corporation

Fred W. Batten, President

The Inland Gas Co., Inc.

Otis H. Horne, President

The Preston Oil Company

Jack Cashell, President

Columbia Gas System Service Corporation

Cecil E. Loomis
Chairman of the Board and Chief Executive Officer

John W. Partridge, President

Fred W. Batten
Senior Vice-President and Chief Operations Officer

Francis H. Crissman
Senior Vice-President and Chief Financial Officer

Robert F. Duemler, Senior Vice-President
(Business Promotion, Employee and Public Relations)

Alan A. Cullman, Vice-President (Finance)

William J. Curnow, Vice-President (Accounting)

William C. Hart, Vice-President

Loring E. Heckman
Vice-President (Operations and Planning)

Howard B. Noyes, Vice-President (Gas Procurement)

Richard A. Rosan, Vice-President and Counsel

S. Orlofsky
Vice-President (Engineering and Research)

Charles E. Stout
Vice-President (Geology and Gas Production)

Charles W. Uhlinger
Vice-President (Employee Relations)

Richard C. Wolfe, Vice-President

Robert L. Wegerle
Vice-President (Rates and Depreciation)

Karl Shaver, Secretary

John E. Sundman, Treasurer

Harry C. Davies, General Auditor

C. P. McCoy, Controller

K. C. Albaugh, Jr., Assistant Controller

Robert C. Sloan, Assistant Controller

Ohmer Ullery, Assistant Controller

Michael J. Prylucki, Assistant Secretary

J. S. Graves, Assistant Treasurer

L. B. Roth, Assistant Treasurer

Columbia Gas System Companies

The Columbia Gas System, Inc.	Columbia Gas System Service Corporation 120 East 41st Street, New York, N.Y. 10017
Charleston Group Companies	United Fuel Gas Company 1700 MacCorkle Ave., S.E., Charleston, W. Va. 25325 Atlantic Seaboard Corporation Big Marsh Oil Company Blue Ridge Gas Company Columbia Gas of Kentucky, Inc. Kentucky Gas Transmission Corporation Virginia Gas Distribution Corporation
Columbus Group Companies	Columbia Gas of Ohio, Inc. 99 North Front Street, Columbus, Ohio 43215 The Ohio Fuel Gas Company The Ohio Valley Gas Company
Pittsburgh Group Companies	Columbia Gas of Pennsylvania, Inc. 800 Union Trust Building, Pittsburgh, Pa. 15219 Columbia Gas of Maryland, Inc. Columbia Gas of New York, Inc. Cumberland and Allegheny Gas Company Home Gas Company The Manufacturers Light and Heat Company
Columbia Gulf Transmission Company	3805 West Alabama Avenue, Houston, Texas 77027
Columbia Hydrocarbon Corporation	120 East 41st Street, New York, N.Y. 10017
The Inland Gas Company, Inc.	340 - 17th Street, Ashland, Kentucky 41101
The Preston Oil Company	1600 Dublin Road, Columbus, Ohio 43216
Transfer Agents	Bankers Trust Company, New York Mellon National Bank and Trust Company, Pittsburgh Continental Illinois National Bank and Trust Company of Chicago Bank of America National Trust and Savings Association, San Francisco
Registrars	Morgan Guaranty Trust Company of New York Pittsburgh National Bank, Pittsburgh The First National Bank of Chicago Wells Fargo Bank, San Francisco

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